From Baird Investment Management's
Mid Cap Growth Equity Investment Team:

Mid Cap Growth Equity
1st Quarter 2014

Market Update

While slowed by of one of the most difficult winters in memory, the U.S. economy continued its upward grind in the first quarter of 2014. The market absorbed the harsh weather conditions as well as commentary from the new Fed Chair, Janet Yellen, who suggested that not only would the Fed continue reducing its program of Quantitative Easing (QE), but that rates might rise sooner than anticipated. Returns in the quarter were modest, a reasonable result considering the uneven news flow and the fact that 2013 was a particularly strong year the for equity market.

Clients of Baird Mid Cap Growth portfolios enjoyed nearly identical returns when compared with our primary benchmark, the Russell Mid Cap Growth® index. Absolute returns were roughly 2.1% for the period, continuing a string of five quarters of gains.

Portfolio Commentary

Performance was varied across sectors, with positive contributions from healthcare, materials, energy, and technology offsetting weakness in the consumer, industrial, and financial areas. Our portfolios maintain a structure intended to benefit from continued domestic economic growth. Our rationale for leaning in the direction of improved economic activity rests on an environment supported by low inflation and interest rates, positive jobs data, stable to improving manufacturing activity, and solid corporate profits and balance sheets. Weather probably reduced domestic GDP by as much as one percent in the quarter, but new job growth remained steady, housing affordability remains historically attractive, and energy sector related spending is still quite strong.

Much like last year, the healthcare sector led relative and absolute performance during the initial quarter of 2014. Several companies made significant contributions, including Alexion Pharmaceuticals (biotechnology), ICON plc. (clinical research services), and Illumina (gene sequencing equipment). We trimmed Illumina as the stock performed very well for over a year and the combination of its growing position size and relatively high valuation led us to take profits. We also pared back the Alexion position. While the company provides the portfolio exposure to the biotech industry through a well-established and profitable business model, it is advancing beyond our typical market cap range.

The portfolio's technology holdings paced with the sector during the quarter. Strength was most apparent in the semiconductor group, particularly Skyworks and Altera. We believe technology companies will see a better environment in 2014, as prospects are strengthening for both corporate and government spending. Such a change would be welcome relief as tech spending was choppy for much of last year. In anticipation of a better fundamental backdrop, we added to several positions during the quarter, including Ultimate Software, Fortinet, and Microchip. We continue to believe industries such as network security, mobility and software-as-a-service remain bright spots for investment.

The consumer discretionary sector hurt relative performance during the quarter. While the portfolio's retail stocks performed well, auto parts distributor LKQ struggled as concerns emerged regarding the

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sustainability of profitability growth. We believe these concerns will be put to rest as the company executes over time. We expect this sector of the market to perform well in 2014, especially post winter and we lifted the sector weight which had declined primarily due to trimming several high performers in recent quarters. All in, we added to several holdings during the quarter, including Urban Outfitters, Polaris Industries, Tractor Supply, and Dollar Tree, as price weakness on concern over near-term results created opportunity. Continued improvement in domestic employment should result in an uptick in spring spending across retail categories. We also added a new position in Pandora Media, which we view as an increasingly important player in on-line/mobile media. The company commands a significant share of Internet radio and we expect revenues will benefit from a shift in advertising spending away from traditional radio given the strong user trends. In light of a sharp price advance we trimmed our position in Under Armour. The company had a tremendous fourth quarter and prospects are favorable, however, we continually try to strike to right balance between fundamental business strength and a historically high valuation level.

In the consumer staples sector, performance again lagged in the quarter. We've been out of sync lately as sector returns have somewhat surprisingly kept pace or led during the market advance. The Fresh Market exhibited some growing pains and lagged following soft fourth quarter results. We were encouraged to hear that the company will increase its focus on store openings within its existing footprint as we believe store economics remain attractive. The portfolio's lack of exposure to beverages also hurt. We'll be assessing our structure in this sector, but we remain less optimistic about the more defensive groups as we head into 2014. Slower growing sectors such as consumer staples and utilities tend to lag in favorable equity markets and we would expect that relationship to re-establish itself in the coming months.

Our financial stocks trailed the benchmark modestly as capital market exposure, most notably through Affiliated Managers and Greenhill, pulled back as the market churned. We trimmed our Invesco and Alliance Data positions to manage down position size and our overall exposure to capital markets which had increased as the stocks performed well during the significant market advance last year. Should economic data improve and interest gradually move higher, we will likely look to increase our portfolio weight in the financial sector.

The energy sector again made a positive contribution to relative performance as good stock picking was at work. We continue to like the backdrop for companies in the energy arena and the portfolio sits modestly overweight the sector. Exploration activity, both on and offshore should remain robust for the foreseeable future as improved technology has unleashed access to meaningful deposits of oil and natural gas. Portfolio holdings remained stable with only a modest add to service provider, Oceaneering International. We expect that even with a solid ramp in domestic oil production, the global supply and demand equation remains in balance and supportive of relatively stable prices. Of note, the cold winter caused a meaningful drawdown in natural gas reserves and with fewer rigs dedicated to natural gas production, we think the pricing outlook for Southwestern energy is quite favorable.

The portfolio's industrial stocks lagged for the second quarter in a row. Regarding sector adjustments, we used proceeds from trims of Stericycle and Roper to fund a new investment in Trinity Industries. Trinity manufactures rail cars and while traditionally a fairly cyclical business, we believe a secular period of elevated demand is underway due to the growth in transporting crude-by-rail. In light of our expectations for improving economic activity, we believe several other areas will benefit including industrial gas distributors, HVAC and commercial lighting equipment, engineering and construction, and factory automation. We believe the portfolio is well positioned in those areas and the industrials sector remains our largest over-weighted group.

Portfolio holdings in the materials sector posted solid relative returns. Strength from Acuity Brands (industrial lighting products) and better performance from Fastenal (distributor of industrial supplies) drove outperformance. Fastenal has a manufacturing driven customer base and we expect sales activity to improve as we progress through the year.

Outlook

Following a particularly brutal winter for much of the country, we expect that U.S. economic activity will rebound in the second quarter of 2014. Growth in employment, stable commodity prices and positive capital spending should propel an uptick in GDP. The Federal Reserve, now led by Janet Yellen, appears set on reducing Quantitative Easing (QE) throughout the balance of the year, which in our minds is evidence that increased economic activity is sustainable. While interest rates are likely to increase modestly, the lack of wage or commodity inflation should keep rates historically low for the foreseeable future. Although any new language from the Federal Reserve regarding QE and the potential path for interest rates is always subject to interpretation and market reaction. Central bankers in other developed regions, including Europe and Japan, continue to follow our lead in supporting their economies with dovish policies. We see modest improvement in the Eurozone in the coming months and will consider adding to existing positions with exposure to that region.

There are, however, several items that bear monitoring. First, the inevitable slowdown in China's economy is causing increased signs of instability. Loan problems and bankruptcies appear to be rising, and excess manufacturing and real estate capacity will take time to be absorbed. Additionally, Russia's geopolitical ambitions have introduced a wildcard into the landscape. Finally, high multiple stocks did pull back late in the quarter, indicating a possible change in market sentiment.

In closing, we believe the U.S. economy will improve in the second quarter of 2014. Our portfolios reflect that view, but we are mindful that the economic and market winds can shift quickly. We thank you for your ongoing support of Baird Investment Management and our Mid Cap Growth strategy.

The Baird Investment Management Mid Cap Growth Equity commentary is incomplete if not accompanied with the most recent performance report.

The Russell Midcap® Growth Index measures the performance of the mid-cap growth segment of the U.S. equity universe. It includes those Russell Midcap® Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell Indices are a trademark of the Frank Russell Company.

Indices are unmanaged and direct investment is not possible. Past performance is no guarantee of future results.

Tenured Mid Cap Growth Investment Team

- All team members have equity ownership
- Deep sector expertise
- Average years of experience: 21 years

Investment Professional	Years of Experience	Years with Baird	Coverage Responsibility	Educational Background
Chuck Severson, CFA *Senior Portfolio Manager and Analyst*	27	27	Industrials & Materials Consumer Discretionary - Auto IT - Software	MS – Finance - The Applied Security Analysis Program BBA – Accounting and Finance (UW – Madison)
Ken Hemauer, CFA *Senior Portfolio Manager and Analyst*	20	20	Financial Services Consumer Discretionary IT-Business Services	MS – Finance - The Applied Security Analysis Program BBA – Finance (UW – Madison)
Doug Guffy *Senior Research Analyst*	30	10	Energy	MBA – Finance (Ball State University) BA – Economics & Government (Anderson University)
Reik Read *Senior Research Analyst*	16	14	IT-Electronic Manufacturing Business Services	MBA – (UW – Madison) BS – Economics (UW – Madison)
Jonathan Good *Senior Research Analyst*	14	7	Healthcare Information Technology	MBA – (Northwestern University – Kellogg) BS – Applied and Biomedical Sciences (Pennsylvania)